

Mean Reversion Dynamics in Equity Markets: A Comparative Study across Market Capitalisation Indices

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Abstract: The study examines the mean reversion phenomenon for indices representing different market segments in the National Stock Exchange for the period of April 2005 to March 2025. It analyses Nifty LargeMidcap 250, Nifty Smallcap 250 and Nifty Microcap 250. Mean reversion is estimated through Hurst exponent and Ornstein-Uhlenbeck process calculate the speed of mean reversion. Results indicate that all the indices represent mean reverting tendencies. Nifty Microcap 250 has the lowest Hurst exponent implying strongest reversion tendency. Speed estimate reveals that Nifty LargeMidcap 250 adjusts the slowest while Nifty Microcap 250 corrects shocks the fastest.

Keywords: Mean Reversion, Hurst Exponent, Market Efficiency, Ornstein-Uhlenbeck Process

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